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C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 001076

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E.O. 12958: DECL: 04/17/2018

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SUBJECT: PM FUKUDA FACES KEY HURDLES OVER NEXT TWO WEEKS

REF: A. TOKYO 1051 - DPJ GROUPS AND THEIR POLITICAL IMPACT

- [1](#)B. TOKYO 0977 - BANK OF JAPAN: SHIRAKAWA AT LAST
- [1](#)C. TOKYO 0904 - FUKUDA IN NO HURRY TO CALL ELECTIONS
- [1](#)D. TOKYO 0892 - GAS TAX AND SMA EXPIRE
- [1](#)E. TOKYO 0860 - FUKUDA GAS TAX COMPROMISE FALLS FLAT
- [1](#)F. TOKYO 0614 - JCP PARADOX: INFLUENTIAL AS IT WEAKENS
- [1](#)G. TOKYO 0548 - DECISION TIME IN DIVIDED DIET

Classified By: Ambassador J. Thomas Schieffer, reasons 1.4(b),(d).

[1](#)1. (C) Summary. The Prime Ministership of Yasuo Fukuda is coming under increasing pressure. While polls show that fewer than a quarter of the public think Fukuda should resign, Embassy Diet and media contacts are expressing increasing concern about the longevity of his administration.

Among the near-term political hurdles Fukuda must clear is whether to re-instate the controversial gasoline tax on or after April 29. A Lower House vote to override the Upper House rejection of the bill will most likely take place on April 30. Complicating factors are: the outcome of a regional by-election; public opinion, which is still opposed to reinstating the tax; and disagreements within the LDP on how to handle revenues from the gasoline and other taxes. A compromise with the DPJ at this point is very unlikely, as the opposition ramps up its rhetoric with promises to censure the Prime Minister if he opts to re-instate the gas tax. There is concern that a censure motion could lead to shutting down the Upper House, bringing most Diet business to a halt through the end of the session on June 15. This unprecedented situation could increase the pressure on Fukuda to either reshuffle the Cabinet, resign, or dissolve the Lower House and call a snap election. End summary.

April 27: Yamaguchi Election: Fukuda Referendum?

12. (C) The sense of crisis that has surrounded Prime Minister Yasuo Fukuda's administration since late September 2007 continues to deepen, as two key political dates approach. First up on the calendar is a Lower House by-election in the Yamaguchi 2 district on April 27. The by-election, the first national-level election during Fukuda's administration, is being characterized as a referendum on the Prime Minister and his policies by the media. Opposition Democratic Party of Japan (DPJ) leader Ichiro Ozawa himself has called the election a "touchstone" for prospects in the next general election. Both candidates are former central government bureaucrats, but the DPJ's candidate, a former two-term Lower House member unseated in 2005, has stronger name appeal. Implementing their new policy, the Japan Communist Party (JCP) will not run a candidate in the election. JCP voters could provide the margin of victory for the DPJ. Over 10,000 people voted communist in the 2005 election, which the LDP won by only 600 votes. Senior LDP and DPJ leaders stumping in Yamaguchi have been discussing road-tax reform and other national issues, but the candidates themselves have focused mostly on local concerns, such as economic revitalization. Relocation of the Carrier Air Wing from Atsugi to Yamaguchi's Iwakuni has not been a factor in the campaign.

April 29: Decision Time on Gasoline Tax

13. (C) Embassy Diet and media contacts predict that the outcome in Yamaguchi will affect the Prime Minister's decision on the provisional gasoline taxes. Crunch time will come on April 29, 60 days after the Lower House passed legislation covering a wide range of tax measures to fund the

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budget. The legislation included a ten-year extension of the 30-year-old "provisional" gasoline and road-related taxes, which amount to JPY 25 per liter, and preserved earmarks for road construction. The opposition was willing to compromise on the majority of the tax measures contained in the bills, but was dead-set against extending the provisional gasoline tax and several other road-related taxes. DPJ leaders have criticized the earmarks for promoting wasteful road construction projects, despite attestations to the contrary from local DPJ prefectural chapters and some trade union supporters. Decrying what they described as "forced passage" of the budget-related bills, the opposition effectively closed the door to further communication or compromise.

14. (C) The ruling parties early on made clear their plan to use their two-thirds majority in the Lower House to re-impose the provisional gasoline tax on or around April 29, the end of the constitutionally allowable maximum 60-day period for review by the Upper House. (Note: The Lower House re-vote was used for the first and only time in over 50 years to pass a bill in January re-authorizing MSDF refueling operations in the Indian Ocean in support of Operation Enduring Freedom.) Since then, however, the issue has been transformed into something larger than the original debate between the LDP and DPJ over the gasoline tax. In addition to becoming a test of wills between the ruling and opposition camps, it has led to the Prime Minister taking on his own party's road construction lobby by proposing to abandon road construction earmarks generated by the provisional gasoline and road-related taxes. The public, meanwhile, remains opposed to re-imposition of the gasoline surcharge, despite appeals from 42 of 47 prefectural governors that it be re-imposed to fund road construction.

Censure Motion a Possibility

15. (C) Unmoved by the PM's offer to eliminate earmarks, the opposition has threatened to censure the Prime Minister and relevant members of his Cabinet if the gasoline tax is restored. The last time a censure motion was passed against

a Prime Minister was in the 1920s. The censure motion itself has no legally binding effect, but could be used by the opposition to shut down the Upper House for the remainder of the Diet session. The opposition may also employ boycotts and other stalling tactics to heighten the sense of crisis and hinder progress in the Lower House. This could result in increased calls for change from the public and the media, increasing pressure on Fukuda either to resign or to dissolve the Lower House and call a snap election. Some younger reform-minded LDP members, meanwhile, are threatening to abandon the ruling coalition in a Lower House re-vote, if the party's road construction lobby is successful in convincing Prime Minister Fukuda to restore the earmarks. The ruling parties have a cushion of only 20 or so seats in their Lower House supermajority, including independents. Failure to mobilize a two-thirds majority would expose serious rifts within the party and could affect Fukuda's ability to pass other key legislation.

Fukuda's Options: Reshuffle, Resign, or Call Elections

¶6. (C) Prime Minister Fukuda is on increasingly shaky ground with the public, as indicated by recent polls showing cabinet support ratings dipping into the 20s. Some observers believe that Fukuda may have no choice but to resign in the face of a censure motion, triggering a new LDP presidential election and leading to a new Prime Minister and Cabinet. His

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successor would have to be a strong figure to lead the party through the next general election. A majority of respondents in recent polls say the Lower House should be dissolved if a censure motion is passed.

¶7. (C) A second possibility is that he might give in to opposition demands to dissolve the Lower House, convinced that the ruling parties will keep a simple majority and the prime ministership, thereby proving that the country is not ready for a DPJ-led government. As a third possibility, a few Embassy contacts are still convinced the Prime Minister will stay in office, possibly shuffling a few ministerial posts in order to boost his image and effectiveness, but rejecting calls to resign or call an election before his term as LDP President and the term of the current Lower House members expire in September 2009. Fukuda's uncharacteristically aggressive performance in a recent Diet debate with DPJ leader Ozawa received positive press coverage, even if it did little to stave his declining support rates in the short-term. It is worth noting that despite his poor showing in the polls, a majority of respondents routinely answer that they would like to see him remain in office anywhere from six months to the completion of his term. Fewer than a quarter think he should resign immediately.

Ozawa Vulnerable as Well

¶8. (C) On the other side of the equation, DPJ leader Ozawa has never been a popular figure with the public, and routinely scores just above the single-digits as a potential Prime Minister. His hold over his own party, already weakened considerably by his private discussions of a "grand coalition" with Prime Minister Fukuda in October and November 2007, has suffered further because of recent missteps, and will be tested in the event of defections from the DPJ over the gasoline tax. Support for the DPJ in public opinion polls has not risen in response to DPJ "victories" in the Diet, nor has support for the LDP suffered from Fukuda's personal slide. Fukuda, for his part, has not wavered from his commitment to lead the country through the G-8 Summit in July and beyond, and is planning a visit to Russia in the days immediately preceding the Yamaguchi election.

SCHIEFFER